THE MISSOURI BUDGET
FISCAL YEAR 2006
BUDGET SUMMARY

I. OVERVIEW

Missourians are by nature a prudent, no-nonsense people that expect government agencies to work efficiently and effectively to achieve goals. They rightfully expect their elected leaders to responsibly manage state finances, much in the same way that they handle their own personal finances. Sound management of state resources is essential if Missouri is to progress. The state must limit the number of tasks it takes on, as it cannot be all things to all people. For those functions that it does assume, it must provide the highest level of service with minimal resources. Good, hard-working state employees must be adequately compensated and allowed to be innovative so that they can deliver the high quality service they want to provide. The greatest responsibility of the state is to provide a quality public education to Missouri school children. The Governor's Fiscal Year 2006 Budget takes major steps in improving the services provided to the citizens of the state. In his first year of office, Governor Blunt will take actions to ensure responsible stewardship of taxpayer dollars, make public education a priority, create Missouri jobs, improve the availability of healthcare for Missourians, and protect our citizens from crime. This all can and must be done without increasing the tax burden on Missouri families.

II. REVIEW OF THE FISCAL YEAR 2005 BUDGET

State revenue collections have grown at an anemic pace. Through the first six months of Fiscal Year 2005, net general revenue collections are up by only 2.8 percent. The December revision to the consensus revenue estimate resulted in an increase in estimated growth, rising from 2.3 percent to 3.8 percent. However, the growth revision resulted from a reduction in the amount of refunds the state expects to pay during the fiscal year rather than increased economic activity. And unfortunately, supplemental appropriations necessary to continue current state programs have proven considerably higher than the amount set aside for that purpose in the Fiscal Year 2005 budget. Consequently, the Fiscal Year 2005 budget remains balanced, but delicately so. Should revenue collections fail to reach forecasted levels, Governor Blunt is prepared to exercise his constitutional duty to restore balance through withholding of funds.

III. THE ECONOMIC OUTLOOK

U.S. Economic Position

The U.S. economic outlook continues to be encouraging. For calendar year 2005, real GDP is expected to rise by 4.0 percent. Employment is expected to grow by another 1.8 percent. Personal income is expected to increase by 5.6 percent, driven by salary gains and accelerating non-wage earnings. Consumer expenditures are anticipated to increase by 5.5 percent. The inflation rate as measured by the Consumer Price Index is expected to be 2.6 percent in 2005, similar to the historically low rates of the past decade. Forecasters anticipate corporations will continue to enjoy robust profit gains. These trends should continue into the first half of calendar year 2006.

The favorable outlook is based on the following factors:

- Energy prices are expected to stabilize. Oil prices declined from historic highs of over $55 per barrel (unadjusted for inflation) in the fall of 2004 to around $40 per barrel by year's end. Oil prices are expected to gradually decline through 2005 into the mid-$30 range.

- Consumer spending, which comprises over two-thirds of U.S. economic output, has remained relatively strong over the last two years despite only modest economic gains. This is expected to continue over the forecast period, based on continued wage growth and low inflation.
- Business spending on capital assets should remain steady.
- Exports are expected to increase as U.S. firms benefit from the selling power of a weak dollar.
- While there have been some recent increases to the federal funds rate, the Federal Reserve has continued to maintain relatively low interest rates. At the end of 2004, the federal funds rate target was 2.25 percent. Economists generally consider a "neutral" federal funds rate to be in the neighborhood of four percent, so the year-end rate is still considered stimulatory.

However, while the U.S. economy continues to rebound, the potential for downside risks remains. For instance:

- If global demand for oil were to increase sharply, oil prices could rise.
- If households decided to increase saving rates substantially, consumer spending could slow.
- If interest rates rose sharply, demand for "big-ticket" items might weaken, triggering higher than expected inflation.
- If foreign investment were to slow significantly, the rate of economic growth in the U.S could be reduced.

Missouri Economic Position

While the national economy has witnessed moderate improvement, the Missouri economy has remained in the doldrums. Missouri has lost tens of thousands of jobs in recent years while other states' economies have rebounded. From 2001 to 2002, Missouri lost more than 50,000 jobs. In 2002, Missouri lost more jobs than California – the most populous state in the nation and one that has been plagued by significant environmental, economic, and regulatory problems. Missouri has lost jobs to neighboring states because they have tax environments that are more hospitable, regulatory environments that are fairer, schools that are more effective, and a transportation infrastructure that is safer and better maintained. Missouri must be aggressive in growing its economy and adding jobs throughout the state. This cannot happen, however, until the business climate that has eroded in recent years is improved. Governor Blunt's priorities to enhance the business climate include litigation reform, overhauling the workers' compensation system, renewing the state's commitment to agriculture, and improving Missouri's transportation system. In addition, Governor Blunt will make it a priority to identify specific economic development tools needed to attract and retain businesses. The Governor will undertake a comprehensive review of Missouri's tax credit programs to ensure that they are accomplishing the desired goals and that those goals are still relevant in today's fast-moving global economy. Under Governor Blunt, state government will serve as an innovative, effective, and valued partner with Missouri job creators, resulting in a healthier economy and more high quality, family supporting jobs.

ECONOMIC PROJECTION BASED ON CURRENT ENVIRONMENT

	Increase	
U.S.	**Calendar Year 2005**	**Calendar Year 2006**
Real GDP	4.0 %	3.9 %
Total Employment	1.8 %	1.8 %
Unemployment Rate	5.1 %	5.0 %
Personal Income	5.6 %	6.0 %
Consumer Expenditures	5.5 %	5.3 %
Consumer Prices	2.6 %	2.2 %
MISSOURI		
Total Employment	1.5 %	1.2 %
Personal Income	4.2 %	3.7 %

IV. REVENUE PROJECTIONS FOR FISCAL YEARS 2005 AND 2006

Revenue forecasting is a difficult task under the best of circumstances. Nonetheless, the state must move ahead with its budget based on the best available economic information. Governor Blunt is committed to working constructively with members of the legislature to ensure sound budget policies are followed by the state. As a first step, the Governor worked with legislative leaders to develop a consensus revenue estimate.

This budget will see lackluster general revenue growth in the coming Fiscal Year as a result of the discontinued practice of relying on one time revenue sources. The revised Fiscal Year 2005 and initial Fiscal Year 2006 revenue estimates project net growth of 3.8 percent and 2.9 percent respectively. Fiscal Year 2006 growth will be depressed by two structural changes: the completed phase-out of the estate tax and the implementation of the 2004 transportation ballot initiative known as Constitutional Amendment No. 3. The phase-out of the estate tax and Constitutional Amendment No. 3 are expected to lower collections by $33 million and $30.4 million respectively. Also, Constitutional Amendment No. 3 will result in an additional $31.7 million in costs that must be borne by the general revenue fund.

V. REVENUE LIMITATION AMENDMENT

Article X of the Missouri Constitution established a revenue and spending limit on state government. The limit is about 5.6 percent of Missouri personal income based on the relationship between personal income and total state revenues when the limit was established and approved by voters in November 1980. Calculations made pursuant to Article X of the Missouri Constitution show that total state revenues for Fiscal Year 2004 were below the total state revenue limit by $1.4 billion.

The Office of Administration projects that total state revenues will not exceed the total state revenue limit in Fiscal Years 2005 or 2006. These preliminary calculations are subject to change as actual state revenue collections become known and as the federal government revises its estimates of Missouri personal income. These projections could change if the General Assembly were to pass legislation to increase revenue without a vote of the people. Per Article X of the Missouri Constitution, revenue approved by the voters is not subject to the revenue and spending limit.

VI. ENSURING STRUCTURAL BALANCE BETWEEN REVENUES AND EXPENDITURES

For several fiscal years, the state of Missouri has used one-time revenue sources to fund ongoing expenses. In previous fiscal years, much of the shortfall caused by the disappearance of one-time funds was made up by a combination of other one-time sources, targeted budget reductions, and increased collections. That type of budgeting has proven unsustainable; it has sunk the state into a budgetary hole from which extrication is extremely difficult. Governor Blunt recognized the danger, stating categorically that the state must stop spending more than the revenues it takes in. He is determined to ensure that it will do so during his term of office. Taking firm aim at a balanced budget, the Governor recommends general revenue core reductions totaling $357.5 million. Many programs will be reduced, and some will be eliminated.

Links to Financial Summaries and Tables*:*

Financial Year 2006 Budget Recommendations

General Revenue Budget Pie Charts

Total Budget State Pie Charts

General Revenue Receipts and Estimates

General Revenue Summary

Operating and Capital Budget Summary

Supplemental Recommendations—FY2005